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BUDGET ESTIMATES FOR THE BIENNIUM 1998-1999

Report of the Advisory Committee on Administrative and Budgetary Questions

1. In accordance with regulation 9.5 of the Financial Regulations and Rules of the United Nations Development Programme (UNDP), the Advisory Committee on Administrative and Budgetary Questions has considered the budget estimates of UNDP for the biennium 1998-1999, as contained in an advance copy of document DP/1997/23. During its consideration of this item, the Advisory Committee exchanged views with the Administrator, the Associate Administrator and other senior officials of the Programme, who provided additional information.

2. The Advisory Committee welcomes the new presentation of the budget estimates for the biennium 1998-1999 in its new format, in line with Executive Board decision 97/6 on the harmonization of presentation of budgets. The Committee believes that this better identification of resources allocated for administration and management and resources for programme support will enhance the exercise of control and improve management practice. The Committee intends to follow-up on the implementation of the harmonization exercise in the context of future presentations.

3. The Committee also notes that the proposed budget estimates were prepared against the background of the strategy outline contained in document DP/1997/CRP.9, and taking into account the results of a number of consultations with the Executive Board. The proposed estimates therefore incorporate important elements and aspects of the programme for change and organizational restructuring in support of the implementation of UNDP 2001 and the Executive

Board's decision 97/15, as reflected in a number of background documents made available to the Advisory Committee.

4. As shown in table 1 of the budget document, the proposed estimates for the biennium 1998-1999 for UNDP amount to $599,383,800 gross, reflecting a 7.7 per cent nominal growth over the 1996-1997 revised appropriations of $556,466,500 gross. In net terms, the amount proposed of $527,256,800 reflects an increase of 1.7 per cent over the 1996-1997 revised estimates of $518,466,500 net. The Committee also notes from table 1 and paragraph 38 of the budget document that the Administrator's proposal reflects a volume decrease of $6,147,200, offset by a total cost increase of $49,064,500. The latter comprises a downward adjustment of $9.9 million resulting from the general strengthening of the United States dollar, an increase of $13.3 million relating to various salary adjustments further detailed in paragraph 28 below, and the full impact of inflation estimated at $45.7 million or 4.1 per cent per year. In connection with the latter, the Committee notes that the inflation rate for the biennium 1998-1999 combines 3 per cent at headquarters and 5 per cent for the field per annum.

5. The Advisory Committee recalls that the Executive Board, in its decision 95/23, allocated 24.1 per cent of total resources for the biennial budget. At the same time, the target for contributions to UNDP regular or core resources was set at $3.3 billion for the three-year period 1997-1999 - an average of $1.1 billion per year. The Committee was informed that pledges received for 1997 totalled $856.8 million. However, as of 1 July 1997, taking into account adjustments to pledges and the exchange rate effect, these were revised to $783,732,000. Adding miscellaneous income, this amount increases slightly over $800,000,000 - not reaching the planning target of $1.1 billion per annum set by the Board.

6. The Advisory Committee notes that the estimates for the biennium 1998-1999 are not presented in accordance with the requirements set by the Executive Board in its decision 95/23 to maintain the allocation of 24.1 per cent mentioned in paragraph 5 above. In paragraph 8 of document DP/1997/23, the Administrator recognizes "that the present proposals result in an increase in the relative share of total resources that will be allocated for the biennial support budget". The Committee was informed upon inquiry that the ratio pertaining to the use of regular resources projected for the biennium 1996-1997 is 27.6 per cent, and the ratio for the 1998-1999 proposed budget stands at 29.8 per cent of projected general resources.

7. In this connection, the Advisory Committee points out that the rate of growth of total resources is larger than the rate of growth of regular resources. Moreover, as shown in table 3, total resources have increased by 8 per cent, from $5.2 billion for the biennium 1996-1997 to $5.7 billion for the biennium 1998-1999; while regular resources have decreased by 11 per cent, from $2 billion in the biennium 1996-1997 to $1.8 billion for the biennium 1998-1999. If this trend were to continue, the Committee believes that the Administrator will have to monitor the policy implications, and most particularly the capacity of regular resources to absorb the impact and administrative costs of this type of expenditure.

8. Furthermore, table 3 of the proposed budget document, shows that non-regular resources amount to $2.2 billion for the biennium 1996-1997. For the biennium 1998-1999, they are estimated at $2.3 billion. The Advisory Committee requested a breakdown of these amounts, and was informed that the first amount covering the current biennium included cost-sharing activities of $1.6 billion and $606 million related to trust funds. For the biennium 1998-1999, the amounts are projected at $1.7 billion and $600 million, respectively. The Advisory Committee notes that the Executive Board, in paragraph 5 of its decision 96/44, has requested the Administrator "to present by January 1998 a comprehensive study of the whole modality of non-core resources from donor countries in relation to their financial management, focusing on their cost effect on core resources". The Advisory Committee is of the view that particular attention should be given by the Administrator to ensuring that a fair share of support is charged non-regular resources, particularly in view of the steady decrease in regular or core resources.

9. The Administrator sets out his reasoning in the strategy outline for the biennium 1998-1999 (DP/1997/CRP.9) and in paragraphs 3-5 of the overview of document DP/1997/23. Moreover, in paragraph 20 of the latter document, he indicates that based on the expected outcome for 1997, if one were to assume approximately $2.4 billion for regular resources for the three-year period 1997-1999, the budget would have to be reduced by $130 million or more than 30 per cent. Since the programme has been downsizing for the last six years, he states, in paragraph 10, that further cuts would "cut into the muscle and bone of the organization, leaving it weakened in numerous areas". He further argues in paragraph 11 that another two-year reduction could not be absorbed "while sustaining normal activities and devoting highly motivated attention to implementing fundamental change".

10. However, the Administrator acknowledges, in paragraph 13 of the budget document, that if official development assistance continues to decline, "a return to another round of downsizing may be inevitable". The Administrator addresses the short-term impact of the decline in the general resource income situation by proposing a budget based on the assumptions summarized in paragraph 19 of document DP/1997/CRP.9. These assumptions include a number of measures to increase income. As shown in table 1 of the proposed budget document, these measures increase projected income from $38 to $72 million.

11. In this connection, the Advisory Committee cautions, however, that the elements considered may not all lead to an increase in income in the actual amount estimated in table 1. The first one includes $11 million related to staff assessment, which was previously included in the budget as part of staff costs. According to the new approach, as indicated in paragraph 61 of document DP/1997/23, the equivalent portion of the voluntary contributions of the countries concerned, in relation to the reimbursement of their staff members to their respective national authorities, would now appear as income to the biennial budget. The Advisory Committee supports the proposal of the Administrator to identify this element and charge the voluntary contribution of those donors who levy income tax on the emoluments of their nationals working with UNDP. However, the Committee is of the opinion that, unless the donors concerned were to increase their voluntary contributions in a manner that would

more than offset the $11 million charged to their contribution, the ratio of the biennial budget to general resources would increase.

12. The second element to increase income is related to the proposal of the Administrator contained in paragraphs 57-60 of the budget document. The Administrator proposes to charge any shortfall in the Government's contribution towards local office costs (GLOC) to the voluntary contribution of the recipient Government concerned or the target for resource assignment from the core (TRAC) of the recipient Government. The Committee notes that the Administrator estimates this will increase collection of GLOC from $38 million in the biennium 1996-1997 to $60 million in the biennium 1998-1999.

13. The third element introduced relates to an amount of $1 million discussed in paragraph 113 of the proposed budget. The Committee notes that the Administrator plans to discuss with United Nations specialized agencies the reimbursement of the direct cost of United Nations Volunteers (UNVs) financed through the programmes of those agencies. Since the $1 million in question represents approximately 10 per cent of what should be reimbursed, the representatives of the Administrator are confident that the amount will be obtained.

14. The Advisory Committee, while appreciating the value of these proposals, notes that no measures are proposed in case the $72 million in income is not attained. The Committee is of the opinion that the administration of the programme should work out contingency measures in this regard, including implementation of the observations of the Advisory Committee in paragraphs 17-18 below.

15. Table 3 of the proposed budget document sets out the use of resources for the biennium 1998-1999. As shown, programme support under regular resources totals $434,500,000. Furthermore, as indicated in table 1, country offices account for $273.9 million of total programme support, while country offices' support to operational activities account for $96.3 million - approximately 9 per cent more than the 1996-1997 appropriation of $88.4 million for that same purpose. Headquarters programme support amounts to $64.8 million.

16. The Advisory Committee discussed at some length the $96.3 million in country offices support to operational activities, which account for 16 per cent of total budget resources. In this regard, the Committee notes that further explanation is contained in paragraphs 97-102 of the budget document. The Administrator indicates that a recent study confirms the considerable increase in these activities, as shown in table 10 of the proposed budget document. Related workload has increased from 29 to 34 per cent, which, according to the Administrator, as indicated in paragraph 100, is "equivalent to 27 per cent of the approved appropriations in terms of costs".

17. On the basis of the testimony of the representatives of the Administrator, and taking into account the explanation contained in the budget document, the Advisory Committee has concluded that much work still needs to be done in order to refine the methodology for compiling and analysing statistics in this area. The Committee was informed that there is an element of judgement in the interpretation of the data and related costs. Furthermore, although data is

sent to headquarters by each country office, the related expenditure is not allotted separately to each office. In addition, the volume reduction of $1.7 million and the cost increase of $9.6 million indicated in table 1, under country office support to operation activities, would appear to the Committee to be a mere mechanical application of the costing factors used by UNDP. The Committee points out that the $96.3 million in question are not related to specific objects of expenditure. Moreover, the amount corresponds to a lump sum request, and that being the case, the use of the appropriation should be susceptible to considerable management control by the Administration.

18. In view of the foregoing, the Advisory Committee recommends that the Administrator further review the methodology for compiling and analysing data. The Committee is not advocating the establishment of an expensive cost accounting system, but a system which should improve the accuracy of estimates. The Committee also recommends that data be collected concerning all elements of support currently reimbursed by the agencies and other entities. In order to enhance cost awareness amongst the agencies and other parties, UNDP should consider the possibility of expanding reimbursement to reduce the current appropriation for support to operational activities of the United Nations system.

19. As indicated in paragraph 15 above, programme support resources allocated to country offices amount to $273.9 million. The Committee notes this amount incorporates adjustments of $27.7 million, indicated in paragraph 44 of the proposed budget. These adjustments result from an increase in resources allocated to the Europe and the Commonwealth of Independent States region, from $16.3 million in the current budget to $25.3 million in the coming biennium, including the establishment of the office in the Russian Federation. It also incorporates the establishment of a limited number of subregional resource facilities (SURFs) for support capacity at that level.

20. With regard to the latter, paragraph 53 of the report indicates five facilities will be established initially, one in each region. Total costs for 1998-1999 are estimated at $5.8 million, including $0.7 million for start-up costs. Proposed staff resources total 24 posts (14 international professional, 5 national professional and 5 general service posts). The role of the subregional facilities is further explained in paragraphs 13-17 of document DP/1997/20 and two pilot facilities have already opened in Islamabad and Bangkok. The Committee notes, as indicated in paragraph 17 of the document, that the SURFs "will be introduced gradually to allow for adjustments in the light of experience. One facility per region will be established each year over three years". The Committee also notes that the Executive Board, in paragraphs 15 and 16 of its decision 97/15, supported the phased introduction of such facilities, while requesting the Administrator to provide an interim report, through the Advisory Committee, at its 1998 annual session on the "budget implications, human resources implications and efficiency gains occasioned by the phased introduction of subregional resource facilities".

21. On the basis of information available to it, the Advisory Committee believes that the role and function of the SURFs has not been sufficiently clarified and defined. The Committee is of the opinion that the role of the SURFs should be monitored carefully, in light of technological developments and

other facilities now available to the country offices through UNDP, such as development support services (DSS) and other organizations, regional or international, including the specialized agencies. Furthermore, in view of the unpredictable future funding of UNDP, it may be necessary to consider whether it is prudent to continue to expand the UNDP support infrastructure in a way that may not be sustainable in the long run if general resources continue to decline.

22. Substantive restructuring has been undertaken at UNDP headquarters as well. On the programme support component, the Committee notes the newly formed Operations Support Group, which, as indicated in paragraph 64 of the budget document, is a support unit for the Associate Administrator and the regional bureaux, as well as for other units of the Operations Group. With regard to the management and administration component, the Committee notes the establishment of the new Bureau for Planning and Resource Management, indicated by the Administrator "as a major instrument for change" in paragraph 73 of the budget estimates. The reorganization consolidates into one single bureau the functions related to planning, budgeting, programme resource assignment, human resources management and information management.

23. The role of the regional bureaux has also changed in view of the considerable restructuring, decentralization and delegation of authority to the field. The Committee notes, from the indication in paragraphs 21-24 of document DP/1997/20, that the decision to decentralize these bureaux has been delayed for the time being. The Administrator points out that decentralization is at an early stage and that "there remains a need within operations for strong management oversight and guidance from headquarters to manage the transition". The Administrator concludes, however, in paragraph 24 of the above-mentioned document, that the location of the regional bureaux "should be reviewed at the end of the 1998-1999 biennium in the light of results achieved through implementing the change proposals".

24. However, the Committee requests that the future review of the role and location of the bureaux take into account the fact that considerable functions have been delegated to country offices, making it necessary to consider the extent of the need to continue with the current post levels of the heads of the regional bureaux at headquarters. In this connection, the Advisory Committee notes the inconsistent application of the 1971 decision of the Governing Council regarding the establishment of regional bureaux (see document E/4954, para. 52), and recommends further that the heads of all regional bureaux should have the same post level.

25. Moreover, in view of the considerable restructuring that has taken place at UNDP headquarters and the delegation of authority to the field, the Administrator should review the number of high-level positions at headquarters.

26. The Committee also recalls that, in paragraph 41 of its report DP/1995/52, it recommended that the Administrator submit, in the context of his budget proposal for the biennium 1998-1999, an evaluation report on the development support services (DSS) programme, with the aim of determining the extent to which this initiative has met its intended objectives. The Committee notes that the Administrator addresses DSS in paragraphs 116-120 of the proposed budget document, and that in response to decision 95/28 of the Executive Board,

information is presented on the use of DSS for the biennium 1994-1995, for which $6.2 million were allocated and fully spent. The Committee also notes, as indicated in summary table II of document DP/1997/23, that $7.2 million were allocated to DSS during the biennium 1996-1997, and that $7.7 million are proposed for the biennium 1998-1999. In paragraph 124 of the document, the Administrator indicates that DSS "should also be seen in the context of the development of the concept of the subregional resource facilities (SURFs), which complement arrangements through which country offices can access substantive capacity". In the light of the comments made in paragraph 21 above regarding SURFs, the Advisory Committee cautions that there is a need to monitor the relationship between the two facilities in order to avoid duplication of functions and services, streamlining their activities if warranted.

27. The Committee notes from paragraph 17 and table 2 that the Administrator proposes to increase the number of posts from 4,055 to 4,064 for the 1998-1999 biennium. The net increase of 9 posts is the outcome of the increase of 32 national professional staff in the field, partially offset by a decrease of 6 international Professional staff and 17 General Service posts. The Committee was informed that a total of 17 posts are being transferred from headquarters to the country offices.

28. As shown in summary table II, total staff costs, excluding consultancies amount to $418,400,100 for the biennium 1998-1999, increasing by 8.3 per cent, when compared to appropriations for the biennium 1996-1997 of $386,200,700. As mentioned in paragraph 4 above, an increase of $13.3 million incorporates various staff-related cost increases indicated in paragraph 38 of the budget estimates document: an upward adjustment of $8.6 million relating to salary revisions (6.6 per cent over the salary used in the formulation of the current appropriations); a downward adjustment of $0.5 million, representing a technical adjustment for the UNV programme relating to salaries for a six-month period having been costed in the 1996-1997 budget at the Geneva level; an upward adjustment of $4.6 million related to the financial impact of expected within-grade salary increments; and an upward adjustment of $0.6 million to incorporate the financial impact of the proposed reclassifications. With regard to the latter, table 6 summarizes proposed reclassifications. The Committee notes a decrease in the posts of a lower grade and an increase in the higher grade posts.

29. The Committee was informed upon inquiry that the vacancy rate incorporated in the budget estimates was 0 per cent for headquarters, and 2.5 per cent for country offices - a combined vacancy rate of 1.6 per cent. Furthermore, as of April 1997, the number of vacancies against a total number of 626 posts was 39 or 6 per cent (see document DP/1997/23, table 2). The net result of outflows (retirements, secondments, United Nations missions, separations, special leaves without pay, etc.) and inflows (recruitments, returns from missions, secondment, leave, etc.) is projected to be a net inflow of 31 staff by the end of 1997 - resulting in a vacancy of 1.3 per cent.

30. The Administrator outlined the criteria for the allocation of staff to country offices in an informal paper, DP/1997/CRP.14. Paragraph 5 of the document indicates that the main criterion continues to be "a combination of the amount of resources that are being programmed and managed and the policy to

preserve the capacity of the UNDP country office network as a whole". The Committee also notes that UNDP has shifted, according to the Administrator "from a funds provider to a service provider", and that "now, more than ever, the UNDP staff is the most important resource that UNDP can offer at the country level - the sine qua non of successful UNDP development cooperation", as indicated in paragraph 9 of the budget proposal. Paragraphs 45-52 of the proposed budget provide the details on the application of the criterion for allocating staff resources to country offices.

31. The Committee is of the opinion that, in view of the unpredictable resource situation of the programme, the organization's contracting for staff services, whether on a long- or short-term basis, should ensure the possibility of quick response to changes in programmes and resource level. Such flexibility obviates the need to pay high termination indemnities. In this connection, the Committee points out that a $14 million one-time provision was established for separations in the 1996-1997 budget appropriations. As indicated by the Administrator in paragraph 127 of the proposed budget, the amount covers the separation of 59 Professional staff, 42 General Service staff at headquarters, and 196 locally recruited staff in country offices. Ninety-four per cent of that provision will be disbursed by the end of 1997. The Committee was also informed that an amount of $8 million has been included in the budget proposal for the biennium 1998-1999, reflecting an increase from the $4 million usually allocated in the recurrent budget. The Committee was informed upon inquiry that of this increase $2 million were to cover normal turnover, and routine separations; while the additional $2 million covered the separations expected from the redeployment of local staff among regions.

32. In addition, the Advisory Committee requested information regarding costs associated with after-service health insurance. The Committee was informed that $1 million is included in the budget estimates to cover a premium shared by UNDP and the retiree at a 2:1 ratio, as set by the United Nations. The Committee was further informed that, on the basis of a review of the United Nations Accounting Standards (UNAS) in June of 1997 of this item, UNDP will have to put in place systems to ensure appropriate disclosure and will carry out an actuarial study to be completed by the end of 1999. Furthermore, this would include a review of liabilities relating to staff who have served under projects financed by UNDP and executed by United Nations specialized agencies and the United Nations Office for Project Services (UNOPS). The manner in which such agencies have accounted for such costs in the past and in which projects have been charged, will have an impact on possible liabilities of UNDP.

33. The Committee also recalls that in its report DP/1995/52, on the budget estimates for the biennium 1996-1997, it addressed the issue of the staffing formula for adding supplementary UNV headquarters staff indicating that, because of economies of scale in UNV support services, it did not see the need for an increase in resources in direct proportion to the increase in the number of volunteers in the field. Furthermore, the Executive Board, in its decision 95/28, requested the Administrator to review the staffing formula and report in this regard in the context of the 1998-1999 biennial budget.

34. The Committee notes, as indicated in paragraph 110 of document DP/1997/23, that the Administrator proposes to amend the staffing formula for the coming

biennium, covering the base of 1,000 UNVs previously financed by the UNDP core budget, and incorporating additional economies of scale resulting from further streamlining, simplification of the work processes, and full automation. Assuming the same level of 1,500 volunteers as at 31 December 1996, the proposal reduces staffing units from 38 in the biennium 1996-1997 to 34 in the biennium 1998-1999, resulting in savings of $1.8 million.

35. Details regarding information technology and systems are provided in paragraphs 90-94 of the budget document. Table 9 shows that the total allocation for systems development will increase to $10.4 million in the biennium 1998-1999, from $6.3 million during the biennium 1996-1997. The Advisory Committee regards the use of technology as an essential tool in the management of UNDP operations, particularly at a time of downsizing and implementation of the proposals for change. In this connection, the Committee requests that close coordination be maintained between the United Nations and UNDP, regarding the extent to which the Integrated Management Information System (IMIS) can be used in a cooperative manner.

36. Paragraph 85 of the proposed budget indicates that a joint review by UNDP, the United Nations Population Fund (UNFPA), and the United Nations Children's Fund (UNICEF) with regard to the reimbursement to the United Nations for services received is about to be completed for the period 1997 and future years. The Committee was further informed that the goal is to establish a more stable regime, which would not change during each biennium. In this connection, the Committee points out that in the past it has reviewed rates of reimbursement for services rendered by the United Nations Secretariat. Accordingly, it recommends that the agreed rates, including the basis for the proposal, be submitted to the Advisory Committee for scrutiny, and that the submission take place before implementation.

37. The interim financial statements of UNDP for the biennium 1996-1997, covering the 12 months ended 31 December 1996, show an amount of $7.8 million in unspent allocations in excess of resources under "status of funds for other trust funds administered by UNDP". Upon inquiry, the Committee was informed that these negative balances resulted from differences between pledges and actual contributions, timing differences in the collections of the receivables or, in some cases, actual overcommitment and overexpenditure. The Committee stresses the need to ensure that disbursements conform to available resources. The Committee was assured that trust fund managers are taking action to ensure these situations do not lead to a deficit position, by either collecting additional resources or ensuring disbursements are made within available resources. Moreover, based on each situation, budgets are revised to reflect the current available resource position.

38. Paragraph 5 of the budget estimates indicates that the new budget "is fully responsive to the actions taken by the Secretary-General in his Tracks I and II reform initiatives". However, the Committee notes that the document does not clearly indicate where it responds to those initiatives. The Committee was further informed that no agreements have yet been reached with regard to negotiated long-term commitment pledges by donors. Nevertheless, the Committee notes that the Programme for Reform of the Secretary-General, contained in document A/51/950, also contains proposals for multi-year, instead of annual

voluntary pledges, which will be discussed by Member States in the context of the consideration of the reform item.

39. In connection with the Office of the United Nations System Support and Services (OUNS), the Committee notes a staff increase in the General Service level of 3 posts to a total staff component of 11 posts (4 Professional and 7 General Service posts); and that resources requested increase from $2.2 million in the current biennium to $2.6 million for 1998-1999 biennium. The Committee was further informed during its hearings that it was envisaged that OUNS would serve as the Secretariat for the United Nations Development Group, as mentioned in the proposals for reform of the Secretary-General, contained in document A/51/950. If such were to be the case, the Advisory Committee reiterates its views, stated in its report on the Office of the United Nations System Support Services (DP/1996/25), and its report on the revised budget estimates for the biennium 1996-1997 (DP/1996/30), that the activities of OUNS should be financed from the regular budget of the United Nations.